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DEPARTMENT FOR EEB/ESC AND EUR/SCE; TREASURY FOR  
INTERNATIONAL AFFAIRS LARRY NORTON

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SUBJECT: CROATIA UNPREPARED FOR ANOTHER GAS CRISIS  
ACCORDING TO INA OFFICIAL

¶1. (SBU) Stevo Kolundzic, senior advisor to the board of directors of INA, Croatia's largest energy company, told econoff on December 7 that owing to existing Croatian gas supplies and market conditions, Croatia is ill-equipped to deal with another gas cutoff from Russia, or even a cold snap that would drive up domestic demand. According to Kolundzic, Croatia's single underground gas storage facility south of Zagreb, which was a critical buffer during the cutoff of Russian gas last January, is currently less than half full. He said INA has explored emergency gas delivery options with Italy, either purchasing some of the production of Italy's Adriatic fields, or leasing pipeline space from Slovenia to import gas from elsewhere in western Europe. However, Croatia is burdened by a price control mechanism that has not been altered since 2004. Under this system, INA is forced to import gas at market prices and sell at a significant loss, resulting in a much-publicized 300 million euro debt. INA has been under increasing political pressure to pay its obligations, making the prospect of significant new imports extremely difficult.

¶2. (SBU) Croatia imports just under half its domestic natural gas needs from Russia. Croatia's domestic production accounts for much of the rest, but with no new fields in development, that production is stable and will begin to fall within the next few years. INA currently has large investments in Syrian natural gas fields and the company hopes to make up the shortfall in domestic supplies over the next decade with new production from Syria. A planned LNG terminal on the Adriatic island of Krk would add an additional 1 bcm/year or so for the domestic market, but not until 2014 at the earliest. Until then, Croatia will be highly vulnerable to supply disruptions (although, unlike some of its neighbors, the advantage of domestic production will continue to be a buffer, making any externally-provoked gas crisis somewhat less acute. But this production is not enough to completely mitigate crisis, especially if it is sparked by both internal demand problems and external supply problems hitting at the same time). The price control mechanism is a significant drag on any flexibility they might have, but it is unlikely to change in a period of cold temperatures and economic crisis.

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